

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

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QUOTE OF THE WEEK

“In the end more than they wanted freedom, they wanted security.

*When the Athenians finally wanted not to give to society
but for society to give to them, when the freedom they wished for
was freedom from responsibility, then Athens ceased to be free.”*

--- Edward Gibbon (1737-1794)

Source: Decline and Fall of the Roman Empire, 1909

UNDER THE DOME

*****Our Principles Should Guide Health Care Session*****

The Governor's goal for the special session on health care he called last week is to produce something for the February ballot. However, ballot initiatives require a two-thirds vote of both houses. This means Republicans can and should aggressively participate in this process. The current dialogue is about merely adding up how much is being spent on health care in California, then simply dividing this cost among the different "players."

Californians deserve much more from this session than what calculators can produce. The present approach disregards reforms that could deliver more care for less money. This is the hard work that needs to be done. In short, applying what we know to be true about markets and human behavior is the only way to improve health care for Californians.

To get ahead of the curve for the special session, I looked back over the past couple of years to health care articles I've written for this letter. I have posted the articles here:

<http://www.billleonard.org/>

These include articles on Health Savings Accounts and how Californians, especially those who are young and single, could have affordable coverage by choosing high deductible insurance plans supported by HSAs. In one piece I used practical examples to illustrate the point.

There are also discussions about the history of employee mandated health insurance. Asking how we came to insure ourselves this way and why ought to be the first step toward identifying what reforms are needed.

*****Midnight Specials*****

The latest Cal-Tax newsletter has a great story

< <http://www.caltax.org/caltaxletter/pdf/091407.pdf> >

about the “midnight specials”-- those bills that are amended in the last week of session with new authors, entirely new language, and totally different subjects than when they were introduced at the beginning of session. The list is impressively long and, although they are all last minute bills, none of the subjects are new. That is, they are not the result of some new disaster or court decision that forces last minute action. Rather, they are the result of plotting and scheming to take advantage of legislators' diverted attention to the hundreds of other bills that are pending in the final days of session.

Our constitution requires that bills be in print for 30 days before any action can be taken. That century-old rule may be too lengthy for the Internet age when a new bill can be distributed far and wide quickly. However, the loophole for plotters and schemers is that once a bill is introduced, assigned a number, and 30 days have passed, it can be changed completely and voted on in its new form immediately. (I know the rules provide for two days in print for new amendments, but that rule is waiveable by those same legislators).

“Midnight specials,” also known as “gut-and-amends,” are wrong. They violate the spirit of the constitution and are a poor way to engage the public in discussions about statutory changes.

*****Civics Lesson (or What They Don't Teach in High School)*****

The amazing 36-hour attempt by the Correctional Peace Officers (CCPOA) to pass legislation containing their new contract that would have faced a certain veto contains a lesson in civics. The author, Assemblywoman Bonnie Garcia, learned that words count. No matter how many times she told the legislators what her bill did, it was only what the bill said that actually mattered. Legislators vote for the words on paper and not on descriptions. It turns out that someone swapped her amendments to the bill with something different. When Garcia found out that the bill before the committee for a vote was not the bill she described, she withdrew. This is smart. Legislators are wise to read what is in the bill no matter how late they get it, or how many pages long it is because, in the end, it is those words that count.

*****Comparable Worth*****

Apparently a huge gap in the contract negotiations between Governor Schwarzenegger and the Correctional Officers (CCPOA) is not all about money. Instead, it is about worth. I remember attempts years ago by feminist groups to try to equalize wages in female dominated jobs with those in male dominated jobs. It was impossible to do because the jobs themselves were so different that it could not be shown conclusively that the wage differences were due to gender and not other, larger economic factors. But here the question is: who is worth more: a highway patrolman or a correctional officer? To me these jobs are so similar in difficulty, danger and training that the jobs are identical. CCPOA is making that point, but both the Governor and the

CHP union are resisting.

The public deserves better than this dispute. There are hundreds of vacancies in the ranks of correctional officers because it is such a tough job and the Governor needs to do something to make sure those positions are filled. If there was a riot at a state prison I am sure that the CHP would be called upon to assist, so why is their union arguing that they are worth more than correctional officers?

All state employees who carry badges and weapons are covering the front line for the public. We need to honor them all for the challenging and life threatening work that they do.

*****McClintock on Majority*****

All the recent discussion about the possibility of changing the two-thirds budget requirement to a simple majority vote reminded me of a proposal to do just that by an unlikely source: Senator Tom McClintock. Senator McClintock made the proposal back in 2005 but it was rejected by Democrats and ignored by Governor Schwarzenegger. Why the rejection? Because, as he is wont to do, Senator McClintock got the very core of the issue with his proposal. While he proposed requiring only a majority to pass the budget, he would have limited borrowing and spending, and required a two-thirds vote for any tax or fee increases. That is the deal breaker for our liberal friends. They want a majority vote for all of that and do not wish to be constrained by responsible limits. As the debate begins on fiscal reforms I would recommend that the McClintock plan be the basis for the discussions. You can read his 2005 proposal here:

http://www.leginfo.ca.gov/pub/05-06/bill/sen/sb_0001-0050/sca_2_bill_20050329_amended_sen.html

*****Your Tax Dollars at Work*****

The Los Angeles Times ran an article last week pointing out how much money local governments in California spend lobbying the legislature. The Times calculated that cities, counties and the like spent about \$40 million, and noted that the figure is more than “unions, manufacturing interests or the oil industry.” Sad, but true. Of course, state government’s budget is really a budget that transfers money to local governments. Our Legislative Analyst lists the following programs with significant state support of local services: K-14 education, welfare, mental health, drug treatment, jails, probation, police/sheriff, trial courts, parks and recreation, and streets and roads.

Thus local governments directly benefit from state tax dollars more than unions, manufacturing interests, or the oil industry. Not only are local governments interested in increasing their share of the state’s tax revenue, I learned early on that they cheat on each other. Complex formulas are written to distribute the state money to local entities. Small changes in these formulas can mean big differences to a particular local government. Because of the clout of the Bay Area legislators the formulas always seemed to favor Bay Area cities and counties. I worked with lobbyists for inland and rural local governments to make these formulas fairer to every Californian.

So it would be nice to fire these lobbyists and spend that money to hire more police or teachers, but with the way that state government micromanages local decisions and steals local tax dollars they would end up losing twice and not be able to fight for a fair allocation of your tax money.

TAX TIPS

*****The Top 250 List*****

State law requires the Board of Equalization to post to the internet quarterly the list of the 250 largest tax delinquents in the state. We recently posted the latest list which has taxes due ranging from just over \$270,000 to more than \$17 million, but, frankly, the newest list is not all that different from last quarter's list. Indeed, since the list was first posted earlier this year only two taxpayers have been removed: one who paid his account in full for \$623,442, and another who entered into a payment agreement with us on his \$425,000 liability. Since taxpayers are given 30 days notice prior to the list's posting, taxpayers can work their way off the list before it goes public. A total of four taxpayers have done that: one taxpayer paid his liability in full (\$290,000), two taxpayers entered into installment payment agreements and another taxpayer pursued an offer in compromise, which was accepted by the Board.

The theory behind this list was that the public shame or being a tax cheat would motivate someone to pay his obligation. It does not seem to be playing out that way. More likely, people do not pay their taxes either because they intend to cheat and thus do not care about their reputation anyway, or they do not have the money because they are poor businesspeople and no amount of embarrassment can change that. Still, it is an interesting list to peruse. You will notice a lot of used car dealers and automotive-related businesses, several furniture and jewelry stores on this list. See the full list here:

<http://www.boe.ca.gov/cgi-bin/deliq.cgi>

*****The Top Ten List*****

The Franchise Tax Board has recently issued its list of the top ten reasons that businesses' tax returns or payments are delayed. Just looking at this one-pager may give you some ideas about what to double-check before you file your forms.

http://www.ftb.ca.gov/forms/07_forms/07_761.pdf

MISCELLANY

*****A Good Read*****

The Civil War in general and Abraham Lincoln in particular have always been of special interest to me. Since I have studied them for so long, I thought I knew some things, but "Citizen Lincoln" by Ward M. McAfee had a new story on every page with great documentation. Even

those stories that I already knew were offered with interpretations of Lincoln's thinking that are compelling. McAfee rejects the determinist model of liberal historians that Lincoln was a victim of his times who did not control even his own actions. Instead, McAfee shows how Lincoln worked step-by-step to advance his own agenda, which was to keep the Union together and to free to slaves.

McAfee's paints a picture of Lincoln as a very special politician in every good sense of the word using the president's own speeches and letters. He tested his thinking out on a variety of people mostly without their realizing it. He used the abolitionist community to make him seem moderate to those who questioned his policies to save the Union. He manipulated and anticipated Jefferson Davis and the Confederacy to explain that his hand was forced and he had no choice but to defend America and call up Union troops.

Given the discussion today in California, I learned that Lincoln was the victim of gerrymander. The new Republican party was strongly behind Lincoln for the Senate and he had the support of the old Whig party. But the Democrats controlled the Illinois Legislature in the early 1850s and drew district lines that guaranteed their dominance through the decade. On November 2, 1858 Republican candidates actually gathered more votes than the Democrats but the Democrats won more seats. Those Democrats quickly re-selected Stephen Douglas back to the U.S. Senate. That may be the worst result of gerrymandering in history and is just one example of why "Citizen Lincoln" is such a good read.

BOE AND LEGISLATIVE DATES

October 2-4, 2007 --- Board of Equalization meets in Culver City.

October 14, 2007 --- Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in the Governor's possession after Sept. 14 (Art. IV, Sec.10(b)(1)).

October 17, 2007 --- Board of Equalization meets with county assessors in Shell Beach.

October 23-24, 2007 --- Board of Equalization meets in Sacramento.

November 11, 2007 --- Veteran's Day (observed by state government on Monday, November 12)

November 14-15, 2007 --- Board of Equalization meets in Sacramento.

November 22, 2007 --- Thanksgiving.

December 4, 2007 --- Hanukkah begins at sundown.

December 11-13, 2007 --- Board of Equalization meets in Sacramento.

December 25, 2007 --- Christmas.

NOTABLE DATES/ HISTORY

Unless otherwise note, the California history dates are courtesy of www.learncalifornia.org

September 17, 1630 --- English Puritans led by John Winthrop established a settlement on the Shawmut peninsula in the Massachusetts Bay Colony. The settlement was later named Boston, after the town of Boston in Lincolnshire, England.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 17, 1787 --- At the close of the Constitutional Convention in Philadelphia, Pennsylvania, the delegates signed the new Constitution of the United States.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 17, 1859 --- Joshua Norton declared himself "Norton I, Emperor of the United States." He later added the title "Protector of Mexico." Norton had lost a fortune in the early 1850s when he tried to corner the rice market in California during the Gold Rush. Some claim this economic ruin drove him mad. Norton I, often accompanied by his dogs Bummer and Nazarus, ruled from San Francisco, where the citizens treated him with the proper respect. They outfitted him with the attire of an emperor, listened to his proclamations, and cashed his promissory notes. Norton I's "reign" ended in 1880, when he died on the way to hear a lecture at Academy of Natural Sciences.

September 18, 1895 --- Booker T. Washington made his Atlanta Compromise speech, in which he encouraged blacks to get an education and work for economic self-reliance even while living with racial discrimination. From the speech: "There is no defense or security for any of us except in the highest intelligence and development of all."

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 18, 1860 --- A great foot race took place at Sunol in Alameda County. The race was between a native Californian and an American. As news of the event spread people flocked from throughout the county to witness the race. After wagers were placed and the participants prepared, the race began. The Californian raced to an early lead and maintained it throughout the race. More than \$30,000 changed hands that day.

September 18, 1868 --- Ground was broken for the first railroad in Southern California. The Los Angeles and San Pedro Railroad was incorporated in February 1868 and when it opened on October 26, 1868, the railroad connected Los Angeles and Wilmington. In 1874 the railroad was consolidated with the Southern Pacific Railroad.

September 19, 1959 --- Soviet leader Nikita Khrushchev, on a tour of the United States, denounced the security restrictions that prevented him from visiting California's Disneyland.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 19, 1859 --- After news of the gold discovery in California reach the East Coast easterners sought find passage to the west. The Pacific Mail Steamship Company, established in 1848, capitalized on this need. Their steamships carried on average 15,000 to 20,000 gold seekers from Panama to California every year from 1849 to 1859. Pacific Mail Steamship also delivered mail to and from the east coast and California during the state's first ten years, but on this date in 1859 the PMSS departed with its last mail delivery, ending an important chapter in the company's California's history.

September 20, 1884 --- At its convention in San Francisco, the Equal Rights Party, formed to advocate for women's rights, nominated Belva Ann Lockwood for president of the United States.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 22, 1853 --- The state's first telegraph message was sent. The electric telegraph line ran from Point Lobos to a hill in San Francisco and relayed what type of ship was arriving in San Francisco. Merchants used this information to learn what type of cargo the nearing ships carried. On the top of the hill stood a semaphore, a signaling device with two arms, that the operator could use to identify the type of ship. The name of the hill where the semaphore stood: "Telegraph Hill."

September 22, 1969 --- San Francisco Giants outfielder Willie Mays hit his 600th career home run, becoming the first National League player to do so.

< <http://encarta.msn.com/encnet/features/onthisday.aspx> >

September 23, 1869 --- The University of California opened its doors in Oakland. The University of California was chartered in 1868 by the State after having absorbed the College of California. The university had 10 teachers and 40 students on its first day. It moved to Berkeley in 1873. By 1895 it had over 1000 students.

September 23, 1952 --- U.S. Senator Richard Nixon, a candidate for vice president, answered charges that he used an improper expense fund in a nationally televised address that came to be known as the "Checkers" speech because he mentioned the family dog Checkers in his explanation.

< <http://encarta.msn.com/encnet/features/onthisday.aspx> >

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired

TDD phones: 800-735-2929

Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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